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U.S. Dept. of the Treasury

Questions and answers on
the Anglo-American...

Washington D.C.

1946

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Questions
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ANGLO-AMERICAN FINANCIAL AGREEMENT

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U. S. TREASURY DEPARTMENT
WASHINGTON, D. C.
JANUARY 1946



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Foreword

When the Financial Agreement with England was announced, the Treasury received many inquiries about the proposed credit. These questions came from members of Congress, from business and civic organizations, and from private citizens interested in the urgent problems dealt with in this Agreement.

It seemed to me that millions of our citizens must be asking themselves these same questions. They want to know the facts about the Financial Agreement. They want to know why the proposed credit is necessary. I have, therefore, asked the Treasury staff to present in plain language the questions that we have received and the answers that we have given on the Financial Agreement.

The American people want a world of peace and prosperity. So do the people of all countries. This will be possible only through international cooperation to establish fair currency and trade practices that will make it possible for world trade to expand and grow. We have made a good deal of progress toward this goal. Unfortunately, England will not be able to commit herself to the prompt application of these principles until she is sure that she will be in a position to secure her essential imports of food and raw materials.

For six years, England devoted most of her resources to fighting the war. She converted her export industries to war production. She sold foreign investments and incurred a foreign debt of \$13 billion to pay for her world-wide war expenditures. But now the war is over. England can secure imports only by paying for them with exports. She can meet her huge foreign debt only by finding markets for her products. With some help, it will take a few years for England to restore her export industries and to reestablish her export trade. In the meantime, England must import. Otherwise the health of her people will be impaired and her industries will decline.

If England can secure a credit that will help pay for her essential imports during the next few years, she can immediately accept the principles of fair and nondiscriminatory currency and trade practices. In fact, England will be greatly benefited by an expansion of trade on such a basis. That is the policy England would prefer.

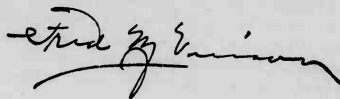
But if England cannot secure such a credit, she will have to take drastic steps to curtail her imports and to force her exports on other countries. Our exports would be excluded, as far as possible, from British Empire countries which would concentrate on trade with

each other. Such a policy would inevitably divide the world into conflicting economic blocs. In blunt language, the world would be at war—economic war.

The consequences of such a policy would be tragic for the United States, for England, and for the entire world. That is why the representatives of the United States and England went over this problem in discussions that lasted more than 3 months. They agreed that England would need help in maintaining essential imports and that part of this help should be in the form of a credit of \$3½ billion from the United States. And they agreed that with this help England could abandon wartime currency and trade discriminations and join with the United States in a program of international economic cooperation. This is the essence of the Financial Agreement between the United States and England which is now before Congress for approval.

This Financial Agreement, and the proposed credit, will be a big step in preventing economic warfare. It will also be a big step in building a world in which countries live and work together in peace and prosperity. For England, it will mean a chance to feed her people and reconvert her industries in a world of expanding trade. For the United States, it will mean opening the markets of our best customer, England and the British Empire, to the products of our factories and farms. For all countries, it will mean a chance to reconstruct a war-shattered world, with expanding trade, greater employment, and higher standards of living.

The people of the United States and the United Nations have agreed on a program in which countries cooperate to maintain peace and prosperity. The United Nations Organization, with its Security Council, General Assembly, Economic and Social Council, and International Court of Justice, constitute one side of this program. The International Monetary Fund and the International Bank for Reconstruction and Development and the proposed International Trade Organization constitute another side of the same program. The Financial Agreement with the United Kingdom is essential to the realization of this entire program for peace and prosperity. This is what I hope the people and Congress will bear in mind in considering the Financial Agreement.



FRED M. VINSON,
Secretary of the Treasury.

WASHINGTON, D. C.,
January 1946.

Questions and Answers

1. What is the Anglo-American Financial Agreement?

The Financial Agreement between the Governments of the United States and the United Kingdom is an agreement under which—

a. The United States will extend to the United Kingdom a line of credit of \$3½ billion which can be drawn upon until December 31, 1951.

b. The United Kingdom will end a series of wartime financial and commercial restrictions and practices which have the effect of discriminating against American trade and reducing the flow of world trade.

The loan will be repaid in 50 equal installments, beginning in 1951. The amount to be paid each year for principal and interest of 2 percent is fixed at \$120 million on the \$3½ billion credit, plus an additional \$20 million on the \$650 million settlement for lend-lease and surplus property. This makes a total of \$140 million a year. The portions of the payment that will be credited to principal and interest, respectively, will vary from year to year, the portion to be credited to principal increasing and that to interest decreasing.

The Financial Agreement is associated with a far-reaching agreement on commercial policy and a settlement of the outstanding lend-lease and surplus property problems of the two countries. The commercial policy statement proposes the establishment of an International Trade Organization which would aim to expand world trade by reducing trade barriers, avoiding trade discriminations, and eliminating cartel practices.

2. Who decides whether the credit should be extended?

Congress has to authorize the Government to extend the line of credit to England. Section 1 of the Financial Agreement states that it will take effect on the date when the United Kingdom is notified by the United States that Congress has made the necessary funds available.

The authorizing legislation will have to be passed by both Houses of Congress.

3. Does England need this credit?

In the next few years England will not have enough income from abroad—foreign exchange from exports and services—to pay for food

and materials which the British people must buy abroad, if they are to live and their industries are to operate. The British estimate that, even if they economize strictly on imports and buy nothing which is not essential, they will have to spend abroad in the next several years from \$5 billion to \$6 billion more than they can sell abroad.

The British cannot pay for these essential imports with their own currency, the pound sterling. Foreign countries already have more than \$13 billion of sterling and will be increasingly reluctant to sell their goods and services for this currency. Therefore, the British need a credit in foreign money to continue to buy imports from the United States and other countries. In a few years, their export industries will be restored and they will earn enough foreign exchange to pay for their imports and other expenditures abroad.

After careful study, the American representatives concluded that a credit of \$3½ billion from the United States, plus her other resources, will enable England to meet the postwar deficit in her international trade. If England's needs turn out to be smaller than estimated, she will not use the entire amount of the line of credit. England will try to keep her obligations to a minimum, in order to keep down the annual payments of principal and interest which she will have to make.

4. How did England get into this position?

England got into these foreign exchange difficulties because she devoted most of her resources to the war. In the next few years her earnings from overseas business will be lower than before the war because—

a. British exports are lower. During the war England's export industries were converted to war production or shut down. In 1944 she exported only 30 percent as much goods as in 1938. It will take several years to reconvert these industries and restore their trade.

b. British foreign investments were sold. During the war England sold over \$4.5 billion of her foreign investments, and thereby lost forever the income which they formerly yielded. The proceeds were used to buy war goods from us and other countries. In addition, England incurred foreign debts of \$13 billion.

c. England's income from shipping and other services has fallen off. Part of her merchant fleet was sunk in the war. Many of the other services she sells abroad, such as banking and insurance, are linked with the revival of her trade.

While the war has reduced England's earnings of foreign exchange, some of her foreign expenditures will be increased. The destruction from bombing has to be replaced, and this means increased imports of

raw materials. Much of the capital equipment in her factories deteriorated during the war, and this too must be replaced, in part by means of increased imports.

5. What will England do with the credit?

Section 3 of the Financial Agreement states:

"The purpose of the line of credit is to facilitate purchases by the United Kingdom of goods and services in the United States, to assist the United Kingdom to meet transitional postwar deficits in its current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars, and to assist the Government of the United Kingdom to assume the obligations of multilateral trade, as defined in this and other agreements."

Since England needs a large quantity of the kind of goods which the United States can best supply, it is probable that a large part of the credit will be used to finance direct exports from the United States to England. The British will also use the credit to pay other countries for imports, when these countries want dollars to buy imports from the United States. Thus India, for example, will be able to use the proceeds of her exports to England to pay for her purchases in the United States.

6. Will England pay off the blocked sterling with the credit?

Section 6 of the Financial Agreement provides that "any amounts required to discharge obligations of the United Kingdom to third countries will be found from resources other than this line of credit." This means that England will not use the loan to repay any part of the huge sterling balances which other countries acquired during the war. These and other British obligations will have to be settled from such other foreign exchange resources as may be available to England.

7. Will England use the credit to nationalize her industries?

This credit is to help Britain meet her foreign exchange problem which would be precisely the same under a Labor Government or a Conservative Government. The money will be used only to buy goods and services from abroad. It will be used to help eliminate wartime trade and exchange restrictions which are entirely unrelated to the nationalization of British industries.

This loan of dollars is for England's external needs—her business with foreign nations. As a matter of fact, if England wants to acquire a British industry she does not need foreign credit for this. She can pay the owners by giving them British Government bonds, or by paying sterling secured by taxes and loans in England.

8. Why is the loan referred to as a "line of credit"?

The dollars lent to England will be used ultimately to buy goods and services or settle claims in the United States. The British will use dollar funds only as they need them to meet obligations. The United States will therefore provide the money in a series of transfers extending over a period of years, rather than in a lump sum.

Under the terms of the Agreement, the line of credit will be available for use by the British until December 31, 1951. The annual amounts withdrawn from 1946 through 1951 will be added together, and that sum will constitute the principal of the loan. If the entire line of credit is used, the principal will be \$3¾ billion. Repayments of principal and interest at 2 percent will begin in 1951, based on the amount outstanding on the last day of that year.

9. Is the rate of interest reasonable?

The rate of interest is 2 percent on the outstanding amount of the loan, and interest payments begin in 1951. The effective rate of interest will be somewhat lower than 2 percent, if either substantial amounts of the credit are used before 1951, as is probable, or the interest payment in any year is waived, as is possible under the Agreement.

The rate of interest is low compared with what American banks would charge a foreign government. It is not low compared with what England can undertake to pay in dollars. Even with the rate of interest at 2 percent, the payments of interest and principal will be about \$140 million a year for 50 years on the \$3¾ billion credit and the approximately \$650 million which the British will owe for the settlement of lend-lease and surplus property. This is a large sum of dollar exchange which the British will have to earn each year and transfer. Over the 50 years the total of interest to be paid will be \$2.6 billion. This is additional to the principal.

The rate of interest should be considered together with the other provisions of the Financial Agreement, many of which England would not have agreed to in return for a loan whose carrying charges she would consider beyond her capacity. It should also be remembered that before the negotiations there were many persons who felt that only a grant would make it possible for Britain to abandon the wartime financial and commercial restrictions of the sterling area.

10. What will be the burden to the American taxpayer?

The immediate effect of this transaction will be to transfer funds borrowed from the American public to an account from which the Government of the United Kingdom can draw as needed. The credit is an investment, not an expenditure, by the United States Government. There will be a cost to the taxpayer only if—

a. Some portion of the loan is not repaid; or

b. If the interest payments prove to be less than the cost of borrowing by the United States Government.

The average interest rate which the United States Treasury pays on the Government debt is slightly lower than the rate of interest which England will pay on the credit. However, because England is not required to begin interest payments until 1951 and because some interest payments could conceivably be waived, it is possible that over the whole life of the loan the United States Treasury will pay to American bondholders somewhat more in interest than it receives from England as interest payments.

The loan will, of course, bring many direct and indirect benefits. It will promote production and trade. The income of the American people will be higher. And with more trade and income, the United States Government will find its revenues increased.

11. Why will interest payments be waived under certain conditions?

The waiver clause recognizes that temporary adverse conditions can make payment of interest difficult. The British point out that American purchases of British goods might in a depression sink so low that over several years it would be impossible for them to earn the dollars necessary for their interest payments.

It has not been customary to make allowance in foreign loans for the possibility of a depression in world trade. The absence of such a provision is one of the reasons why default was often difficult to avoid. Our representatives thought that a provision which permitted interest to be waived in especially bad years was not only fair but also to our benefit. We certainly would prefer to collect the principal rather than force default, which might be the only alternative.

England may request a waiver of interest and the United States will grant it in any year if (a) the British find a waiver is made necessary by the present and prospective conditions of international exchange and the level of British gold and foreign exchange reserves; and (b) the International Monetary Fund certifies that the income from exports of goods produced in England, plus their net income for services rendered to foreigners, such as insurance and shipping receipts and foreign investment, falls below an agreed minimum, stipulated in the Financial Agreement, necessary to pay for essential imports.

The Agreement provides that the amount of interest due will not be waived in any year unless interest payments are also waived on other obligations of England incurred during the period from December 1945 to the end of 1951 and unless payments on the accumulated sterling balances are correspondingly reduced.

It should be noted that the waiver does not apply to repayment of principal. The whole of the principal of the credit must be repaid without qualification.

12. Can England repay this credit?

As world trade recovers after the war, it is expected that England will have an expanding income from exports and from insurance, shipping, and overseas investments. By 1951, when the first annual payment on the loan is due, England's foreign exchange income from these sources should be large enough to enable her to make payments without unduly curtailing essential imports. England will use a portion of her foreign exchange income to meet the annual installments on the credit instead of increasing her overseas purchases or adding to her monetary reserves.

Of course, no one can predict with certainty what will happen in the next 50 years. It is possible that world trade will sometimes break down. England made payments on her World War I debt to us until 1931 when President Hoover proposed that payments be suspended on all war debts for one year. Because during the depression our imports were reduced and our foreign investments stopped, England was unable to obtain sufficient dollars to resume payment on her war debt.

A primary purpose of the loan is to prevent a break-down in world trade. This purpose will be furthered by the establishment of the International Monetary Fund and the International Bank, and the proposed International Trade Organization. If we succeed in achieving a high level of world trade, there can be little question as to the ability of England to meet her obligations under this loan.

13. Will we have to increase our imports?

Ultimately we must import more goods if we intend to export on a large scale and derive the full benefits of increased international trade. During the immediate postwar period, however, we shall probably be a net investor in foreign countries and the amount of this investment will enable us to export without equivalent imports.

At a later stage we shall not only have to import more, but we shall want to import more. Our population will be greater. Our national income will be greater. In addition we are very likely to need more imports of many raw materials in the future. Some of these raw materials we do not produce at all. Of others, our own resources will be too small for our growing needs.

In the long run increased imports will have the effect of raising our standard of living so long as we maintain employment at a high level, because increased imports mean more goods available for consumption.

14. Why doesn't England borrow from other countries?

England has borrowed from others. During the war, foreign countries accumulated billions of sterling in exchange for the goods and services they supplied England. Since they could get only limited quantities of goods in return, the effect was that England borrowed from them. These accumulated sterling balances amount to more than \$13 billion and are held mostly for the account of countries in the sterling area.

England is borrowing from others. Sterling is still piling up in London to the account of foreigners, at the rate of roughly \$2 billion a year. Foreign countries are taking this sterling—a loan to England—in exchange for the goods and services they are now supplying.

England will borrow from others. She is now seeking other credits on long term, for example, from Canada.

The United States is not alone in helping England with credits. But it must be remembered that, aside from the United States and Canada, nearly all the capital-lending countries have been physically devastated by war and are themselves in need of aid. Therefore, England must look to the United States for the bulk of the credit she requires.

15. Why couldn't the International Bank extend this loan?

England will handle her own internal reconstruction and development. The line of credit is to meet a large external emergency. We all know that as an island nation, England relies heavily on trade with other countries. The balance between what she ships in and buys and what she ships out and sells was thrown out of kilter by the war. She needs credit in foreign currency to continue buying until she can restore her export trade.

The Bank is not intended to deal with special needs of this sort. The Bank's resources must be used for long-term reconstruction and development purposes. The proposed loan to England is a long-term emergency credit unsuited to the operations and purposes of the Bank.

16. Why doesn't England sell her foreign investments?

England has already sold \$4.5 billion of her foreign investments. She will have to dispose of still more in settling her wartime debts.

A portion of what is left is not saleable because of wartime destruction, disruption of trade and other causes. Another large portion would have to be sold mainly in the currencies of the countries in which they are located and therefore would not solve England's need for dollars or currencies convertible into dollars. Finally, any investments would have to be sold gradually to realize anything like their value.

When a country sells any of its foreign investments, it terminates

for all time its foreign income from those investments which are sold. To England this would mean a further deterioration in her balance of payments and even greater difficulty in securing essential imports.

17. Why doesn't England cut her foreign expenditures?

At the present time, England is drastically cutting her overseas expenditures. Her war expenditures in foreign countries are of course being greatly reduced. Her dollar expenditures, especially, have been cut and orders have been given to all sterling area countries to purchase for dollars only those essential items which cannot be otherwise obtained.

England's urgent need for \$5 billion to \$6 billion is not based on large foreign expenditures. On the contrary, even with the credits from us and other countries, England will have to maintain her imports at an austere level. It will be hard to feed and clothe her people and rebuild her homes and factories on such a level of imports. England's standard of living will be little different from wartime.

18. What would England have to do if we do not lend the money?

If the credit from the United States is not extended, England would be forced to continue her wartime currency and trade restrictions and drastically curtail all expenditures in the United States. These restrictions would have to be applied not only by England but by nearly all of the British Empire. The dollars earned by these countries would continue to be turned over to the British and allocations would be made by the British permitting the expenditure of these dollars only for the most essential goods that could not be obtained within the British trading area.

Judging by the recent past, England would also extend her system of bilateral agreements to still other countries. These agreements, like the present sterling area arrangements, would discriminate against and perhaps exclude American trade.

Without the loan, these restrictions and arrangements would be continued because England would be compelled—

- a. To cut her dollar deficit by diverting purchases—even at higher prices—to other countries.
- b. To obtain credits from other countries by importing from them and by paying in sterling.

The continuation of these wartime devices would in effect establish a sterling bloc based on the need to reduce purchases from the dollar bloc. The attempt to exclude the United States from these markets would enhance the possibility of economic conflict.

19. Why shouldn't the credit be financed by allowing citizens to invest in British obligations directly?

The people who make this proposal overlook the fact that regardless of the terms of the loan, no foreign bond issue of this size could be floated in our markets. Furthermore this is not a practical proposal because the Financial Agreement involves many considerations other than the extension of a credit.

As explained elsewhere in this document, the real question is whether the long-range interest of the United States requires that England be offered this financial assistance at this time. The credit is designed to make it possible for England to remove discriminatory restrictions on international trade and to associate herself fully with the United States in a program designed to encourage the world-wide expansion of trade.

In other words, the credit to England must be viewed as an integral part of the Financial Agreement with all of its benefits to American business. It cannot be judged as an ordinary commercial credit.

20. What is the sterling area?

Just as the "dollar area" is understood to include a number of countries that have close trade and financial ties with the United States, so the sterling area before the war were the countries closely linked in trade and finance with England. These countries held the larger portion of their monetary reserves in London, and carried out most of their international transactions in sterling, which was convertible into practically any currency in the world.

When the war came England restricted the convertibility of sterling into dollars and limited the use of sterling in purchases from the dollar area. Other countries in the sterling area imposed similar controls. While the currencies of the sterling area countries could be exchanged for each other, none of them could be converted into dollars except to the extent permitted by the monetary authorities in London.

As a war measure, to conserve the exchange resources of England and the sterling area countries, these controls were essential. In peacetime, they can only bring about a serious reduction in trade and the diversion of trade into uneconomic channels. The prewar sterling area, like the dollar area, was a convenience to trade. The wartime restrictions are a menace to trade.

At the present time the sterling area includes all of the countries and territories comprising the British Empire (except Canada and Newfoundland), Egypt, Anglo-Egyptian Sudan, Iraq, Iceland, and the Faroe Islands. One purpose of the Financial Agreement is to restore the convertibility of sterling, particularly with respect to current transactions, such as imports and exports. Thus, the sterling area will in considerable measure return to its prewar form.

21. What is the dollar pool?

The so-called sterling area dollar pool is an arrangement by which the dollars earned by countries of the sterling area are pooled and allocated by London in accordance with essential needs.

It works like this. When an Indian exporter sells goods in the United States, he turns the dollars over to the Reserve Bank of India for rupees. These dollars are then sold to England for sterling. And this happens in all of the sterling area countries that have net dollar receipts. In this way, all the dollar holdings of the sterling area are pooled. Then, when a country in the sterling area needs dollars, it applies to London. To conserve dollars, funds are not allocated to buy goods in the United States that can be secured in any sterling area country. The American producers of such goods are virtually shut out of the sterling area markets.

If the dollar pool is continued into the postwar period, the difficulty of re-establishing multilateral trade would be considerably increased. Moreover, its operation in peacetime would inevitably involve discrimination against American exporters. Trade among the sterling-area countries would be developed in preference to trade with the United States or other non-sterling-area countries.

Under the terms of the Agreement, the dollar pool will be abolished within a year, unless this Government agrees that an extension is necessary.

22. Will sterling-area countries now be able to purchase more freely from the United States?

As a result of the credit made available to England, most sterling-area countries will be in a position to make larger purchases from the United States. Within a year, unless the United States agrees to a later date, the current receipts of dollars and sterling of each sterling-area country will be available to make purchases anywhere. Thus, India's sterling income from exports to England could be converted into dollars to make purchases in the United States. Under present restrictions such income can only be used for purchases in the sterling area.

The proposed United States loan will substantially increase the total amount of dollars available to England and all the sterling-area countries with which to buy our exports.

23. What controls will England place on American sterling balances?

In section 8 of the Financial Agreement, the United States obtains a written commitment that American exporters selling goods to the United Kingdom will be paid in dollars or if paid in sterling, they will be allowed to convert the sterling into dollars.

Until 1951, the imposition of exchange controls by the United Kingdom will be governed by this commitment and specific provisions of the International Fund Agreement. After 1951, all exchange controls will be subject to the International Monetary Fund.

24. What will England do about other bilateral monetary agreements?

These agreements, which have been made with many European and some South American countries, will have to be substantially revised within a year after the Financial Agreement comes into effect.

The British bilateral agreements provide that the sterling received for exports to England can be used only for purchases or payments in the sterling area.

Under section 8 of the Financial Agreement, England states that within a year—unless a later date is agreed with us—she will impose no restrictions on payments and transfers for current transactions. British payments for Danish exports, for example, which are now used only inside the sterling area, will soon be convertible into other currencies, including dollars, and be available for use in any country. The existing bilateral agreements will have to be revised to give effect to this principle.

When that is done, a large amount of potential discrimination against American trade will have been removed.

This commitment lasts until 1951, by which time all the provisions of the International Monetary Fund will apply.

25. Will England discriminate against us by means of import restrictions?

In section 9 of the Financial Agreement, each government undertakes not to discriminate against the other through import quotas, or like devices. Since England's imports are mainly controlled through import permits, this is an important protection to American exporters. It will last until 1951, when it is expected that the rules of the proposed International Trade Organization will govern.

In practice, this should mean that quotas will not be so administered as to refuse permits for American goods while granting permits for similar goods from other countries.

26. What will be the nature of the settlement of sterling balances accumulated during the war?

During the war many countries accumulated sterling balances. These sterling liabilities, which amount now to more than \$13 billion, arose as a result of England's large war expenditures overseas. Because of exchange restrictions the balances could not be used for purchases outside the sterling area. Because of wartime

shortages and commodity and shipping controls, they could not be used to make purchases in England. Therefore, the sterling balances accumulated.

It is not possible for England to produce in the near future a sufficient volume of exports to pay off these balances. Furthermore, her holdings of foreign exchange are too small to permit the sterling to be exchanged for other currencies which the owners could spend elsewhere.

In section 10 of the Financial Agreement, England states her intention to make agreements with each of the countries concerned for an early settlement of these balances. With respect to countries belonging to the sterling area, it is expected that the accumulated balances will be divided into three categories. One will consist of a portion to be made available immediately for current transactions, including purchases in the United States. Another will be gradually released for current transactions over a period of years beginning in 1951. This too can be used for purchases in any country, including the United States. The remainder is to be adjusted as part of the common costs of winning the war against the Axis powers.

It is likely that many countries outside the sterling area will also agree to gradual liquidation of their sterling balances over a period of years.

27. Does the loan give England an advantage over the United States in world markets?

On the contrary, the proposed loan will put American exporters on an equal competitive basis with the British in selling to the countries of the sterling area. Any country that has funds, say sterling, that can be used to buy in England will be able to use the funds to buy in the United States if their people prefer to buy here. No country will be forced to discriminate in its trade as between the United States and the sterling area.

When the accumulated sterling balances are released, it is agreed by England that the money may be used for current payments anywhere. The money can be used to purchase American, British, or any other goods.

28. Is the British credit a precedent for other loans?

It is not. No other country has the same crucial position in world trade as England. The wide use of the pound sterling in world trade, the large proportion of the world's trade which is carried on by the countries of the British Empire, the extreme dependence of England upon imports—these and other factors mean that the financial and commercial practices of Britain are of the utmost significance in determining what kind of world economy we shall have.

We expect that as a general rule the needs of foreign countries for help will be met through UNRRA, the International Fund, the International Bank, and the Export-Import Bank. If any special case could not be handled through these established organizations, the question of a loan would be put to Congress for its authorization.

29. How is the loan related to the objectives of the United Nations Organization?

The proposed credit to England is vital to the objectives of the United Nations Organization. We have learned from long experience that world peace depends on world prosperity. It is not enough to deal with the political problems that threaten world security. We must also deal with the economic problems that can lead to conflict between nations. The charter of United Nations Organization recognizes this fundamental interrelationship between peace and prosperity by establishing an Economic and Social Council to encourage and facilitate international economic cooperation.

By promoting a high level of world trade on a multilateral basis, the Financial Agreement will make an important contribution to world prosperity. It will help assure closer friendship and greater commerce between England and the United States by eliminating the harmful currency and trade practices. It will prevent the danger of economic warfare. In addition, the Agreement provides the basis for a broader understanding on international trade practices to be drawn up at the forthcoming conference on trade and employment. The elimination of currency and trade restrictions and discrimination and other forms of economic warfare is essential to the building of a peaceful and prosperous world. That is a major purpose of the Financial Agreement.

30. What does the United States gain from the Financial Agreement?

Broadly speaking, each provision of the Financial Agreement benefits the United States because each is part of the whole structure of cooperation between the two countries in establishing international commercial and financial policies designed to promote the balanced growth of international trade.

Throughout these questions and answers the specific benefits of the Financial Agreement to the United States have been discussed in some detail. The following list summarizes briefly the principal benefits which the United States will receive, in addition to payment of principal and interest on the credit:

(a) The credit will enable England to buy goods and services in the United States, and these transactions will increase the employment and income of the American people.

(b) Payments by England to other countries will increase the ability of those countries to buy goods and services in the United States.

(c) The sterling area dollar pool will be dissolved, with the result that sterling area countries which acquire dollars will be able to use those dollars directly to buy goods and services in the United States.

(d) Sterling paid for exports or other current business will be freely convertible. Any country can then use such sterling to buy goods and services from the United States or from any other country in the world.

(e) Exchange controls will not be used to prevent residents of the United States from converting into dollars the sterling they get from exports or other current business with England.

(f) Britain's import controls will be administered in such a manner that no discrimination against American products will result.

(g) England will release a portion of the blocked sterling balances held by British Empire and other countries, and the sums thus released will be freely convertible to make purchases in the United States or any other country of the world.

(h) England will be able to assume the full obligations of membership in the International Monetary Fund and the International Trade Organization and can afford to abandon those restrictions and practices which would otherwise have been retained during the transition period.

(i) England will settle the blocked sterling balances with her own resources and this large problem which hinders the restoration of world trade will be solved.

(j) The elimination of exchange and trade restrictions and the solution of these problems will increase American prosperity by increasing the volume of world trade.

(k) The foregoing specific measures will eliminate many causes of economic friction which might threaten the good relations between the two countries.

(l) Finally, all danger of a division of the world into conflicting British and American economic blocs will be averted.

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**END OF
TITLE**